

Update on Fiscal Year 2015 Budget Process

March 25, 2014



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Budget and Internal Audit



Guiding Principles

- Maintain or enhance the provision of services with processes that are observable and beneficial to the community.
- Accept and acknowledge the new normal of staffing and budget allocation.
- Reconfigure our workforce so that it provides for enhanced efficiencies within defined fiscal parameters.



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City Manager's memorandum to ELT (9/6/13) 2



Guiding Principles

- Adequately apply and assign resources to mandated fundamental services.
- Eliminate services, tasks or contracts that are outdated and can be sustained elsewhere.
- Provide for investment in City assets by providing preventative maintenance and care program.



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Guiding Principles

- Provide for a compensation and benefits plan that is sustainable and ensures a strong workforce that fits within our fiscal parameters.
- Plan for the future by investing in planning efforts that will invigorate our City's economy.



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We have a fiduciary responsibility
to our residents and to our
employees.



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Mayor and Council Financial Goals as adopted in the Comprehensive Financial Policies

- To deliver quality services in an affordable, efficient and cost-effective manner providing full value for each tax dollar.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in the City of Tucson.
- To provide essential public facilities and prevent deterioration of the City's public facilities and its capital assets.
- To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the City's residents.
- To protect and enhance the City's credit rating in the financial community to assure the City's taxpayers that the city government is well managed and financially sound.



Revenue Update



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Sales Tax

Preliminary estimate is an increase of 2% for FY 2014 and 3% for FY 2015. Risks to the estimate include unknown revenue impact from 1) unusually warm winter, 2) full impact of commercial rental legislation, 3) contracting tax legislation changes, 4) State collection of TPT (1-1-15)

Sales Tax	Revenue (2-4-14)	\$ Change to PY	% Change to PY
2009	\$ 169.7		
2010	\$ 166.6	\$ (3.1)	-1.8%
2011	\$ 168.1	\$ 1.6	0.9%
2012	\$ 176.8	\$ 8.6	5.1%
2013	\$ 182.9	\$ 6.1	3.5%
2014 Budget	\$ 189.0	\$ 6.1	3.4%
2014 Revised Budget	\$ 186.5	\$ 3.7	2.0%
2015 Budget	\$ 192.1	\$ 5.6	3.0%

Various Comparisons based on Actual Collections	% Change to PY
Cash Basis Collections (8 Months July-Feb)	0.32%
YTD Collections (7 months Aug-Feb)	1.28%
Last 12 months vs prior 12 months	1.54%



Update to City Sales Tax February Collections

Month	Fiscal Year 2012		Fiscal Year 2013		Fiscal Year 2014		Year to Date	
	Collection	Year to Date	Collection	Year to Date	Collection	Year to Date	\$ Change	% Change
July	\$ 14,158,964	\$ 14,158,964	\$ 14,948,674	\$ 14,948,674	\$ 13,973,391	\$ 13,973,391	\$ (975,283)	-6.52%
August	14,001,249	28,160,213	14,744,598	29,693,272	17,296,592	31,269,983	1,576,711	5.31%
September	14,219,822	42,380,035	15,319,515	45,012,787	13,334,047	44,604,030	(408,757)	-0.91%
October	14,272,809	56,652,844	14,679,581	59,692,368	15,047,874	59,651,904	(40,464)	-0.07%
November	13,895,470	70,548,314	14,682,740	74,375,108	14,752,803	74,404,707	29,599	0.04%
December	15,074,880	85,623,194	15,047,446	89,422,554	16,449,717	90,854,424	1,431,870	1.60%
January	16,725,015	102,348,209	17,566,278	106,988,832	17,610,859	108,465,283	1,476,451	1.38%
February	14,123,744	116,471,953	14,950,404	121,939,236	13,864,767	122,330,050	390,814	0.32%
March	14,474,307	130,946,260	13,919,356	135,858,592				
April	15,174,674	146,120,934	15,804,046	151,662,638				
May	14,057,002	160,177,936	15,303,775	166,966,413				
June	16,580,471	176,758,407	15,894,966	182,861,379				

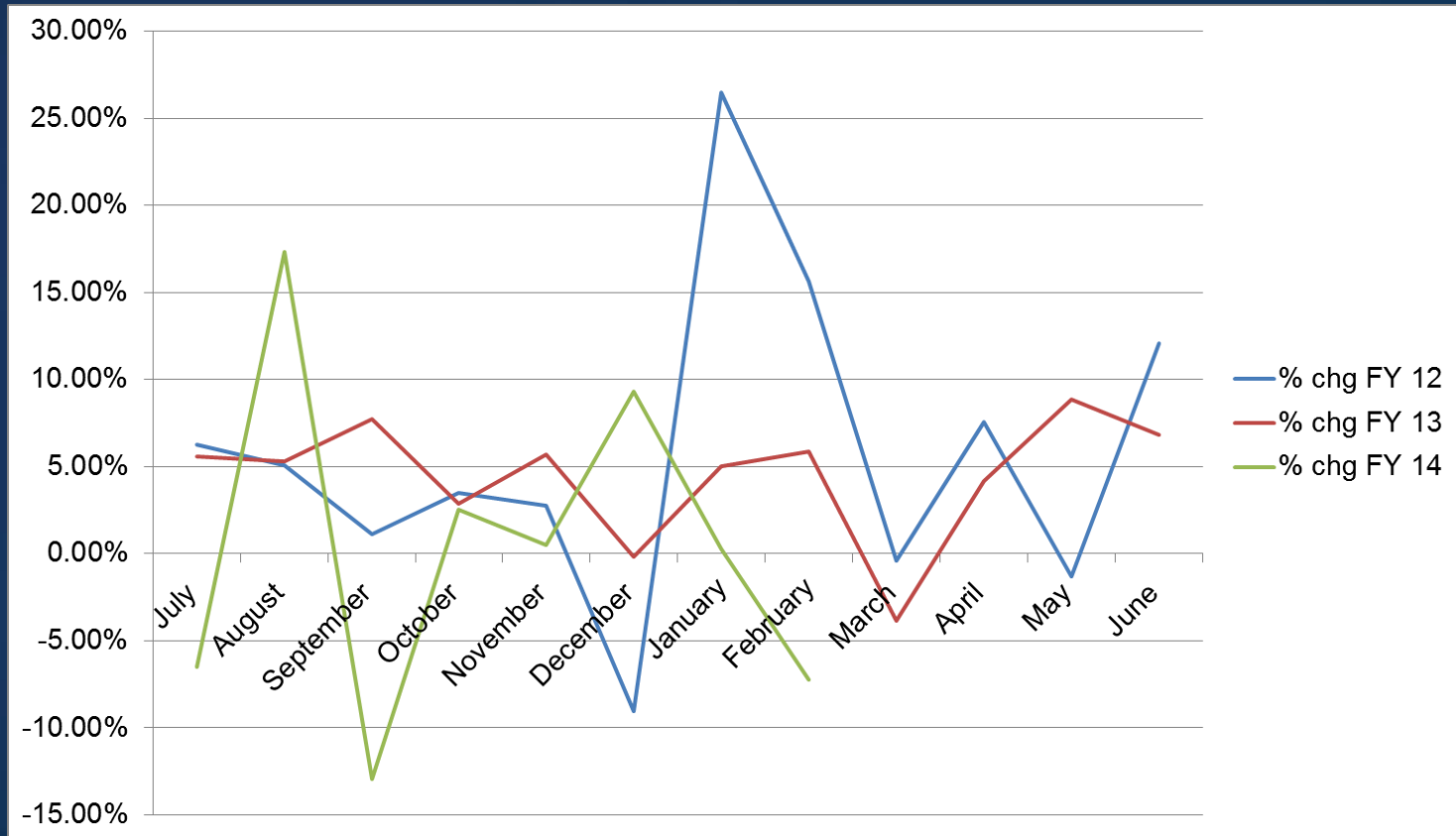


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Sales Tax Percent of Change by Month



State Shared: Income Tax

State Shared Income Tax		\$ Change to PY	% Change to PY
2009	\$ 77.5		
2010	\$ 65.6	\$ (11.9)	-15.3%
2011	\$ 50.3	\$ (15.3)	-23.3%
2012	\$ 45.4	\$ (4.8)	-9.6%
2013	\$ 53.9	\$ 8.5	18.7%
2014 Budget	\$ 57.8	\$ 3.9	7.1%
2014 Revised Estimate	\$ 58.9	\$ 5.0	9.2%
2015 Budget	\$ 63.6	\$ 4.7	8.0%

Various Comparisons based on Actual Collections	% Change to PY
Cash Basis Collections (9 Months July-Mar)	9.10%
YTD Collections (7 months Aug-Mar)	9.06%
Last 12 months vs prior 12 months	11.67%
FY 13 League Estimate vs Actual	-1.52%
FY 14 League Estimate vs Revised Budget	-1.50%
FY 15 League Estimate vs Budget	-1.04%



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State Shared: Sales Tax

State Shared Sales Tax	Revenue	\$ Change to PY	% Change to PY
2009	\$ 41.6		
2010	\$ 38.8	\$ (2.8)	-6.7%
2011	\$ 40.6	\$ 1.8	4.5%
2012	\$ 40.8	\$ 0.2	0.6%
2013	\$ 42.8	\$ 1.9	4.8%
2014 Budget	\$ 44.6	\$ 1.8	4.2%
2014 Revised Budget	\$ 45.1	\$ 2.4	5.5%
2015 Budget	\$ 47.2	\$ 2.0	4.5%

Various Comparisons based on Actual Collections	% Change to PY
Cash Basis Collections (9 Months July-Mar)	6.81%
YTD Collections (7 months Sept-Mar)	6.94%
Last 12 months vs prior 12 months	5.97%
FY 13 League Estimate vs Actual	1.72%
FY 13 Revised League Estimate based on State vs Actual	-0.22%
FY 14 League Estimate vs Revised Budget	-0.37%
FY 15 League Estimate vs Budget	-0.33%



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State Shared: Vehicle License Tax

State Shared VLT	Revenue	\$ Change to PY	% Change to PY
2009	\$ 22.1		
2010	\$ 20.6	\$ (1.5)	-6.8%
2011	\$ 19.7	\$ (0.9)	-4.4%
2012	\$ 19.7	\$ 0.0	0.1%
2013	\$ 19.1	\$ (0.7)	-3.3%
2014 Budget	\$ 19.7	\$ 0.6	3.2%
2014 Revised Budget	\$ 20.0	\$ 1.0	5.0%
2015 Budget	\$ 20.7	\$ 0.7	3.4%

Various Comparisons based on Actual Collections	% Change to PY
Cash Basis Collections (9 Months July-Mar)	10.30%
YTD Collections (7 months Sept-Mar)	13.20%
Last 12 months vs prior 12 months	8.11%
FY 13 League Estimate vs Actual	3.43%
FY 14 League Estimate vs Revised Budget	-2.56%
FY 15 League Estimate vs Budget	0.00%



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New Revenues

- Increase to Business License Fee from \$45 annually to \$60; estimated increase of \$0.5 million
- Administration Fee for ParkWise; \$0.1 million



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Revenue Projections FY 2015 as of March 25, 2014

Revenue Type	FY 2015 Estimated as of 2/4/14	FY 2015 Estimated as of 3/25/14	Change
Sales Tax	\$ 194.0	\$ 192.1	\$ (1.9)
Primary Property Tax	13.3	13.6	0.3
Other Local Taxes	42.0	43.6	1.6
State Shared Revenue	132.0	131.5	(0.5)
Licenses and Permits	20.7	20.5	(0.2)
Fines and Forfeitures	13.8	14.3	0.5
Charges for Services	30.0	30.3	0.3
Administrative Charge	11.1	11.2	0.1
Use of Money and Property	1.1	0.5	(0.6)
Other Agencies	2.7	2.5	(0.2)
Non-Grant Contributions	1.5	2.2	0.7
Sale of Property	1.5	1.6	0.1
Other Revenues	1.1	1.1	0.0
In Lieu of Tax	1.6	1.6	0.0
Subtotal	466.4	466.6	0.2
Use of Assigned Fund Balance - W.R. Grace		4.5	4.5
Use of Restricted Fund Balance	0.9	1.3	0.4
Revenue Total	\$ 467.3	\$ 472.4	\$ 5.1



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One-Time Sources and Uses for FY 2015

Funding Sources:

FY 2014 Assigned Fund Balance	
from W.R. Grace Proceeds *	\$ 4.5
Sale of Property	1.5
Total One-Time Revenues	<u>\$ 6.0</u>

One-Time Expenditures:

Police & Fire Compensation for Earned Leave Accrual	\$ 1.5
New service vehicles	1.5
New election equipment	1.1
ERP procurement module	0.9
TCC Repairs	0.5
Fire rescue trucks	0.3
JustWare Software	0.2
Total One-Time Expenditures	<u>\$ 6.0</u>

* Sun Link self insurance reserve of \$1.0 million to be funded in FY 2014



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Budget Gap Reconciliation

Total Revenues as of 2/4/14	\$467.3
Increases	<u>5.1</u>
Total as of 3/25/14	<u><u>\$472.4</u></u>
 Total Expenditures as of 2/4/14	 \$500.5
Adjustments and One-Time	<u>(0.9)</u>
Proposed Budget before Reductions	<u><u>\$499.6</u></u>
 Budget Gap before Reductions	 \$ 27.2
Reductions to Personnel	(17.9)
Reductions to Non-Personnel	<u>(7.3)</u>
Remaining Budget Gap	<u><u>\$ 2.0</u></u>



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Expenditure Update



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The City Manager's Strategies Include ...

- Consolidations, organizational efficiencies, and the restructuring of administrative functions
- Addressing programs that are not mandated



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Consolidations and Efficiencies

Elected and Official

Mayor and Council

- Reductions to be determined.

City Manager's Office

- Assume the portion of the Office of Equal Opportunity Programs and Personnel.
- Restructuring of Channel 12 original programming.
- Reduction of funding to area non-profits.

City Attorney's Office

- Restructuring of duties within the department to accomplish the tasks performed by currently vacant positions being eliminated.

City Clerk's Office

- Elimination of public funding excess capacity.



Consolidations and Efficiencies

Public Safety and Justice Services

City Court

- Modification of the Probation Program from supervised to unsupervised.
- Restructure workload to address the reduction in personnel.

Equal Opportunity Program

- Eliminate the Office of Equal Opportunity, retain the functions in the Procurement Department and the City Manager's Office.

City Public Defender

- Restructuring of duties within the department to accomplish the tasks performed by positions being eliminated.



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Consolidations and Efficiencies

Public Safety and Justice Services

Fire

- Rescue Truck Conversions expands the alternative service delivery program resulting in an increase in units available on the street and a decrease in response times assisting the department to achieve goals for more efficient in call-load distribution and better align service demands with service delivery.
- Methods of efficiencies are being developed that will reduce overtime.
- Restructuring of administrative duties to accomplish the tasks performed by the eliminated administrative position.



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Consolidations and Efficiencies

Public Safety and Justice Services

Police

- Core service of patrol will be maintained at the highest possible level by the reorganization of administrative positions, assignment of police officers, and management of the hiring process.
- To ensure a high level of strategic planning, management, and oversight there will be a restructuring of the command staff to occur after attrition of current staff.
- Methods of efficiencies are being developed that will reduce overtime.



Consolidations and Efficiencies

Community Enrichment and Development

Parks and Recreation

- The core service of providing parks and recreation to the community will be maintained at the highest possible level by the reorganization of administrative positions.
- Restructuring will increase focus on improving conditions at parks and athletic fields.
- KIDCO service levels will be maintained and participation will not be impacted.
- Continued focus on Zoo enhancements in collaboration with the Tucson Zoological Society.
- Leisure classes will be offered based on participation.
- Staff will address non-mandated contracts including YMCA.
- Planning and development will be in collaboration with the Office of Integrated Planning.



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Consolidations and Efficiencies

Community Enrichment and Development

Housing and Community Development

- Restructuring of duties within the department to accomplish the tasks performed by positions being eliminated.

Office of Integrated Planning

- Establishing and administering an integrated planning process for coordination of policy, plan development and public improvement projects and ensuring the City is operating in an innovative, transparent and efficient manner.

Planning and Development Services

- Restructuring of duties within the department to accomplish the tasks performed by positions being eliminated.



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Consolidations and Efficiencies

Community Enrichment and Development

Transportation

- Continuing maintenance of medians and street repair.
- Continued efforts of abating graffiti.
- Reduce impact on general fund by reassigning a position to HURF activities.



Consolidations and Efficiencies

Support Services

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- Restructuring of audit function.

Finance

- With the transfer of the sales tax collection function to the State, per SB 2111, the Finance Department eliminated six (6) FTE's, in the Revenue Division reducing local control of cash collections in Tucson.

General Services

- Increased funding for asset maintenance. Although, the funding has increased the need still exceeds the funding allocated.



Consolidations and Efficiencies Support Services

Human Resources

- Maintaining the supervisory core training.

Information Technology

- Reorganization and restructure to maintain the focus on the technology needs for the city.

Procurement

- Restructuring of duties within the department to accomplish the tasks performed by positions being eliminated.



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Reductions and Eliminations Include:

- Supervised Probation Program
- PC Replacement Program
- Training
- Reduction in Leisure Classes
- Reduction of command positions
- Elimination of professional, supervisory and administrative positions



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Reduction in Positions

Program Director	1
Professional	23
Supervisory	12
Administration	28
Non-permanent	28
Total	<u>92</u>

Of the 64 permanent positions listed above, 29 are filled and 35 are vacant or will become vacant.

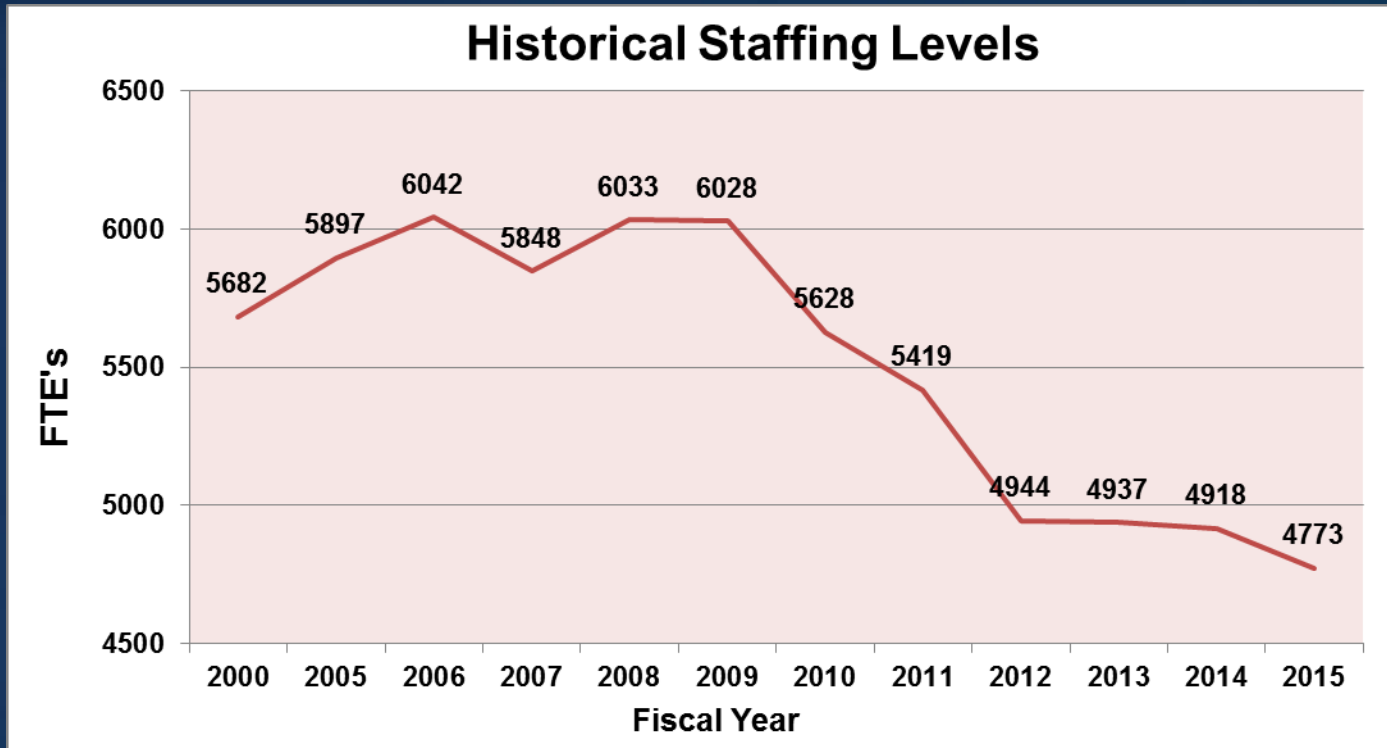


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Citywide Staffing Levels



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Reductions of Funding Support

Tucson-Pima Arts Council (TPAC) *	\$ 301,660
Access Tucson	303,500
YMCA (Jacobs, Lighthouse, and Mulcahy)	88,410
Economic and Workforce Development RFP	600,000
Human Services RFP *	735,910
Total Reduction	<u>\$ 2,029,480</u>

Funding Support to be provided by Visit Tucson

Fort Lowell Soccer Shootout	\$ 10,410
Science and Engineering Fair	3,800
Tucson Rodeo Parade	70,000
Total support provided by Visit Tucson	<u>\$ 84,210</u>

* Maintained \$729,000 of Human Services Support and \$100,000 TPAC funding support



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Sun Link Assumptions

- RTA will fund \$2.0 million operating costs instead of \$1.2 million
 - RTA staff presented a recommended approval of \$2 million for the first year (FY 2015) and \$1.2 million per year thereafter
 - The recommendation was tabled until the April 9, 2014 meeting
- Self insurance reserve will be funded in FY 2014 for \$1.0 million



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Sun Van/Sun Tran Assumptions

Revenue Changes:

Increase in passenger revenues due to fare increase proposal	\$	2.4
Reduction in IGA revenues*		(1.1)
FTA 5310 Program (pays for some Optional ADA service)		0.3
State DDD/DES Program		0.5
Added local match for CNG fueling upgrade project		(1.0)

Expense Changes:

Comprehensive Operational Analysis changes (Sun Tran) to include route restructuring		2.4
Further reductions to meet target (SunTran)		0.9
Further reductions to meet target (SunVan)		0.3
	\$	<u>4.7</u>

* IGA revenues are reduced by the increase in passenger revenues.



City Manager's Strategies to Close the Gap

- \$1.5 million savings from medical and dental benefits. Recommendations for changes to plan design and or contributions to be made by the Benefits Committee.
- Restructuring of overtime provisions to achieve a savings of \$1.0 million.
- Sale of Access Tucson building at fair market value to fund asset maintenance increase.



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Recommended Changes to Overtime Provisions

- Rules governing compensation for hours worked are necessary for effective management of employee overtime compensation.
- A City Code amendment defining hours worked for the purpose of calculating overtime compensation will specify that time worked does not include paid leave or holiday pay.
- Administrative Directives will be rewritten to reflect the code provisions and the labor agreements will be interpreted accordingly.



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City Manager's Strategies do not include:

- Restructuring of Certificate of Participation principal payment
- Overturning the compensation increase approved for January 1, 2014
- Trading one-time funding for operations which would mean one-time expenditures would not be funded
- Further reduction or elimination of services and programs



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City Manager's Strategies do not include:

- Increasing other fees
 - There are no available material options
 - Increase of administration fee for Tucson Water and Environmental Services
- Pursuing alternative service delivery methods
- Reducing the number of commissioned officers
- Reducing fire apparatus



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City Manager's Strategies do not include:

- Use of fund balance
- Eliminating the in payment in lieu of tax (PILOT) fee to the Tucson Water Fund
- Increasing revenue estimates not supported by data
- Reinstating self insurance surcharge



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City Manager's Strategies do not include:

- Rescinding Other Premium Pays
- Replacing commissioned officers in specific functions with civilians (e.g. Human Resources, Information Technology, other desk assignments)
- A significant modification to the medical and dental benefits to employees and retirees



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Debt Restructuring is not Recommended

- Restructuring increases the total interest cost
- Restructuring reflects negatively on the City's ability and willingness to meet its financial obligations to the bond rating agencies, investors and the community. This could result in increase interest costs.
- Continuing to rely on debt restructuring does not address the structural imbalance, which must be resolved.
- A planned restructuring to meet general operating needs takes away the option of having the debt restructuring option available in case of emergency or if State TPT collections have a negative impact on revenue or cash flow.



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Future Challenges

- Impact of Transaction Privilege Tax
- Continued efforts of the State legislation to limit city and towns revenue stream
- Increase to public safety pension rates
- 19 Officers transferring from the COPS hiring grant in FY 2016
- The loss of Police (51 FTEs) and Fire (67 FTEs) in FY 2016



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Budget Calendar

- April 8, 2014
 - OB Sports will present the FY 2015 budget for Tucson Golf Enterprise Fund
 - Discussion on major capital improvement projects
- April 23, 2014
 - Submission of the City Manager's Recommended FY 2015 Budget



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Budget Calendar

- May 6
 - Study Session discussion of Recommended Budget
 - Public Hearing
- May 20
 - Study Session discussion of Recommended Budget
 - Regular Agenda: Adoption of a Tentative Budget



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Budget Calendar

- June 3
 - Public hearing (Truth in Taxation) on primary property tax rate
 - Public hearing on the budget as tentatively adopted
 - Special Mayor and Council meeting for the purpose of final budget adoption
- June 17
 - Regular Agenda for the adoption of property tax levies



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Questions and/or Comments?



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